



STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016

BAC 2684 – FINANCIAL STATEMENT ANALYSIS

(All sections / Groups)

30th May 2016
2.30PM – 5.30PM
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 6 pages with 4 Questions only.
 2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
 3. Please write all your answers in the Answer Booklet provided.
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Question 1

Comparative financial statement data of Danfield Bhd as follow:

DANFIELD BHD			
Income Statement for the year ended 31 December			
	2015	2014	
	RM	RM	
Net sales	467,000	428,000	
Cost of goods sold	(237,000)	(218,000)	
Gross profit	230,000	210,000	
Operating expenses	(136,000)	(134,000)	
Income from operations	94,000	76,000	
Interest expense	(9,000)	(10,000)	
Income before tax	85,000	66,000	
Income tax expense	(24,000)	(27,000)	
Net income	61,000	39,000	

DANFIELD BHD			
Balance Sheet as at 31 December			
	2015	2014	2013*
	RM	RM	RM
<u>Current Assets</u>			
Cash	97,000	95,000	
Account Receivable	112,000	118,000	102,000
Inventories	145,000	163,000	203,000
Prepaid Expenses	12,000	5,000	
Property, Plant & equipment	211,000	179,000	
Total assets	577,000	560,000	598,000
Current liabilities	225,000	246,000	
Non current liabilities	114,000	97,000	
Share capital (not at par value)	108,000	108,000	
Preference Share	130,000	109,000	85,000
Total liabilities and equity	577,000	560,000	

Additional information:

1. Market price of Danfield's share capital: RM86.58 at 31/12/2015 and RM46.54 at 31/12/2014.
2. Share capital outstanding: 12,000 during 2015 and 10,000 during 2014 and 2013.
3. All sales are on credit.

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Required:

As a finance manager, you are required to write a report to the board of directors of Danfield Bhd to discuss the following matters:

- a) Compute the following ratios for 2015 and 2014
- | | |
|--------------------------------|------------------------------------|
| i. Current ratio | v) Gross profit percentage |
| ii. Time-interest-earned ratio | vi) Return on shareholders' equity |
| iii. Inventory turnover | vii) Price/Earnings ratio |
| iv. Debt-to-equity ratio | |

(16 marks)

- b) Comment on the result based on the answers above.

(6 marks)

- c) Decide whether the investment attractiveness of its share capital appears to have increased or decreased.

(3 marks)

(Total 25 marks)

Question 2**Part (A)**

SAP granted share options to its 300 employees on 1 October 2007. Each employee will receive 1,000 share options provided they continue to work for SAP for the following 3 years from grant date. The fair value of options at the grant date was RM1.10 each. In the year ended 30 September 2008, 10 employees left the company and another 30 was expected to leave over the next 2 years. For the year ended 30 September 2009, 20 employees left and another 15 are expected to leave in the year to 30 September 2010.

Required:

Discuss the accounting treatment to be adopted for the share options and calculate the amount to be recognized in the income statement in respect of these options for the year 2008 and 2009. Prepare the journal entries for 2009.

(8 marks)

Part (B)

Cowboy Bhd has three cash generating units in its company. One division Pritt Product was purchased 4 years ago for RM 2 million. Unfortunately it has experienced operating losses over the last 3 quarters and management is reviewing the division for purposes of recognizing the impairment loss if any. The Pritt Division's net assets including the goodwill of RM900,000 from the purchases are listed as follows:

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	RM
Property, plant and equipment (net)	800,000
Goodwill	900,000
Cash	200,000
Account receivables	300,000
Inventory	700,000
	<u>2,900,000</u>

Required:

From the above information, you are required to find out the impairment loss, determination of value of goodwill and all the value of tangible assets after the impairment loss under 3 different circumstances given below:

- (i) If the net fair value of Pritt Division is RM2,800,000 and the value in use is RM3,000,000. (2 marks)
- (ii) If the fair value is RM2,500,000. (4 marks)
- (iii) If the fair value is RM1,700,000 and value in use is RM1,800,000. (5 marks)
- (iv) Describe the indications that an asset may be impaired in accordance with MFRS136. (6 marks)
- (v)

(Total 25 marks)

Question 3

The following information is related to Kluster Sdn Bhd on 31 December 2015 and 2014.

	31 Dec 2015 (RM)	31 Dec 2014 (RM)
<u>Non-Current assets</u>		
Freehold land	152,000	60,000
Machinery (NBV)	408,000	440,000
Long term investment	45,000	25,000
Short term investment	15,000	20,000
Goodwill	32,000	40,000
<u>Current assets</u>		
Inventory	8,000	20,000
Prepaid administration expense	-	1,500
Prepaid advertisement expense	4,000	4,000
Trade receivables	120,000	77,000
Cash in hand	5,000	15,000
	<u>789,000</u>	<u>702,500</u>

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Equity

Ordinary shares	400,000	360,000
3% Redeemable preference shares	80,000	120,000
Capital redemption reserve	40,000	-
Share premium	105,000	40,000
Retained profits	56,000	80,000
Asset revaluation reserve	20,000	-

Current liabilities

Tax payable	4,000	6,000
Dividends payable	8,000	12,000
Trade payable	53,000	72,000
Accrued selling and distribution expense	7,000	2,500
Bank overdraft	16,000	10,000
	789,000	702,500

Additional information:

1. Redeemable preference shares were redeemed at 10% premium. The premium on redemption was written off to the share premium account. These preference shares were redeemed out of profit.
2. Depreciation on machinery charged in the statement of comprehensive income was RM16,000.
3. Land was revalued and the surplus on revaluation of RM20,000 has been credited to the asset revaluation reserve. There was no disposal of land in 2015.
4. Last year's dividend payable was paid this year.
5. Profit for the year is RM24,000. Tax expense charged in the income statement was RM5,600.
6. Machinery was disposed of at a profit of RM2,000. There was no purchase of machinery in 2015.
7. Short term investment qualifies as cash and cash equivalent.

Required:

- a) Prepare a Statement of Cash Flows for the year ended 31 December 2015 for Kluster Sdn Bhd using the indirect method.

(21 marks)

- b) Discuss two (2) limitations of cash flow statement.

(4 marks)

(Total: 25 marks)**Continued.....**

Question 4**Part A**

The following information was obtained from Brownies Bhd's annual report.

Common stock: shares outstanding		Preferred stock: shares outstanding RM10 par 8%, each convertible into two common shares	
Balance on January	800,000	Shares Outstanding, January 1	325,000
April 1 – issued in conversion of preferred stock	200,000	Converted on April 1 (into 200,000 common)	(100,000)
July 1 – issued for cash	100,000	Shares Outstanding at year-end	225,000
Balance on Dec 31	1,100,000		

Options: 100,000 options each to purchase one common share at RM75 per share. None have been exercised.

Additional Information:

	Average for Year	End of Year
Market prices of common stock for Year	RM80	RM86
Preferred dividends paid in year	RM30,000	
Net Income	RM1,500,000	

Required:

- Compute weighted-average number of common shares outstanding for the year.
- Compute basic EPS.
- Compute diluted EPS.

(12 marks)

Part B

The following is the extract of the financial statement information of Zarra Co.:

Income statement	2015 RM'000	2014 RM'000
Sales	4,500	3,200
Operating profit	250	120
Interest expense	0	20
Profit before taxation	250	100
Income tax expense	100	30
Net income	150	70
Balance Sheet		
Non-current assets	300	220
Working capital	450	320
Total liabilities	0	100
Total shareholders' equity	750	440

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Required:

- a) Calculate return on common equity (ROCE) and return on net operating assets (RNOA) for year 2015 and 2014 using end-of-year values for computation requiring an average (assume non-current assets and working capital are operating and a 50% tax rate).

(9 marks)

- b) Based on the result above, comment on the company's use of leverage.

(4 marks)

(Total: 25 marks)

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